



June 2010

Performance Audit of the Development Services Department's Collection of Water and Sewer Fees

*Weak Controls and Poor
Interdepartmental
Coordination and
Communication Resulted
in Unpaid Fees*

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THE CITY OF SAN DIEGO

DATE: June 22, 2010

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor

SUBJECT: **Performance Audit of the Development Services Department's Collection of Water and Sewer Fees**

Enclosed is a performance audit report of the Development Services Department's Collection of Water and Sewer Fees. This report was conducted in accordance with Section 39.2 of the City Charter at the request of the Public Utilities Department. The executive summary is presented on page 2 and management's response to our audit recommendations can be found in Attachment "A" after page 16 of this report.

We would like to thank the Development Service Department and the Public Utilities Department staff who provided their time and contributed their expertise to this report. We greatly appreciate their time and efforts. The audit staff responsible for this audit report is Sonja Howe, DeeDee Alari and Kyle Elser.

Respectfully submitted,

Eduardo Luna
City Auditor

cc: Honorable Mayor Jerry Sanders
Honorable City Council Members
Jay M. Goldstone, Chief Operating Officer
Jan Goldsmith, City Attorney
Andrea Tevlin, Independent Budget Analyst
Wally Hill, Assistant Chief Operating Officer
Kelly Broughton, Development Services Department Director
Alex Ruiz, Public Utilities Department Director



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EXECUTIVE SUMMARY

In response to a request from the Public Utilities Department (Public Utilities), we have conducted an audit of the Development Services Department's (DSD) process for the collection of Water and Sewer permit fees (IOS fees). Specifically, we reviewed the internal policies and processes involved in the billing, collection, and follow-up of Water and Sewer permit fees. We conducted this audit in accordance with Generally Accepted Government Auditing Standards and limited our work to those areas specified in the Scope and Methodology section of this report.

Based on our review of various divisions within DSD, as well as audit testing of a number of reports generated by the Public Utilities Department's Installation Order System (IOS) that identify inappropriately issued permits and inaccurately entered data, we found that during the audit years tested, DSD did not maintain adequate controls to ensure that all IOS fees were consistently and appropriately charged and collected.

We found the following issues during our review:

- As of June 30, 2009, there was over \$170,000 in uncollected IOS fees for projects with permits issued and/or with project status complete.
- DSD and Public Utilities do not maintain a Service Level Agreement or Memorandum of Understanding detailing responsibilities and expectations in the assessment, collection, and follow-up of IOS fees.

We made seven recommendations for corrective action, the details of which can be found in the Audit Results section of this report.

INTRODUCTION

In accordance with our fiscal year 2010 Audit Work Plan, we conducted an audit of the Development Services Department's (DSD) collection of Water and Sewer fees, which are assessed and collected by DSD on behalf of the Public Utilities Department (Public Utilities).

Background

DSD provides review, permit, inspection, and code enforcement services for building and development projects throughout the City of San Diego. Its mission is to provide effective, safe, and quality development, enhancing San Diegans' quality of life through community, customer service, and timely and effective management of development and compliance processes. DSD issued a total of approximately 24,000 building permits over fiscal years 2007, 2008, and 2009.

DSD collects various fees for several City entities, including Public Utilities. Among the numerous fees collected, DSD may collect a variety of Public Utilities fees for water and sewer access and related services as well as capacity-related fees (projects proposing to add or remove water and sewer fixtures) as well as for work to be done on the property. All fee types are not necessarily assessed for each property reviewed. Fees include:

1. Standard Water and Sewer Installation,
2. Capacity Charges and Deferred Capacity Charges,
3. County Water Authority (CWA) Capacity Charges¹,
4. Reimbursement Agreements, and
5. Other Connections/Water Main Connection fees.

Development Services Department's Permit Process

The permit process at DSD is complex and varies by the type, size, and even location of a project within the City of San Diego. Projects reviewed for construction/building permits within the City of San Diego are processed by DSD, which operates a number of sections to expedite projects of various types and sizes. For example, smaller projects such as a tenant improvement (a commercial remodel) would most likely be submitted to Over-the-Counter Review (OTC) and the review could likely be completed by close of business the same day. The permit process for tenant improvement, while fundamentally identical, is different than that of a developer seeking to construct a condominium complex due to the complexity of larger construction and the need for in-depth review across a number of disciplines.

¹ County Water Authority Fees are collected by DSD for Public Utilities on behalf of the County Water Authority. They range from \$4,474 to \$590,568 per meter.

DSD's Permit Process for Combined Review for Submitted Projects

Four of DSD's 19 Plan Review Specialists who conduct reviews resulting in the assessment of IOS fees fall within the department's Combined Review for Submitted Projects division (Information and Application Services section). As these Plan Review Specialists review new construction projects, they generate the majority of IOS fees.

Along with the building plans, customers who anticipate water and sewer needs will also submit a Water Meter Data Card which is used to determine the correct size required for the water meter, water service, and sewer lateral. The Water Meter Data Card includes details about the number and sizes of appliances or fixtures such as sinks, bathtubs, shower heads, urinals, and lawn sprinkler heads. The Information and Application Services section conducts in-depth reviews for zoning compliance with the Land Development Code and Title 24². Plan Review Specialists also conduct a water and sewer review which includes familiarizing themselves with the history of the project by researching various maps, documentation about the property in DSD's Project Tracking System (PTS), and other pertinent information to determine whether the proposed construction complies with Water and Sewer regulations and to ensure that the Water Meter Data Card is accurate.³

Plan Review Specialists keep customers apprised of their projects' progress and, if necessary, request additional information or changes to the plans. Once the building plans are approved, the fixture numbers and sizes are entered into Public Utilities' Installation Order System (IOS) for final fee assessment.

Once the building plans have been approved across all disciplines, customers are issued a PTS invoice and a separate IOS invoice for water and sewer fees.⁴ The IOS invoice is valid only the day it is issued. Although customers are issued invoices for both IOS and PTS, payments for both invoices are tracked in PTS. DSD cashiers must manually enter payment information into IOS for PTS accounts with a corresponding IOS account/invoice. Permits should only be issued once all fees are paid.

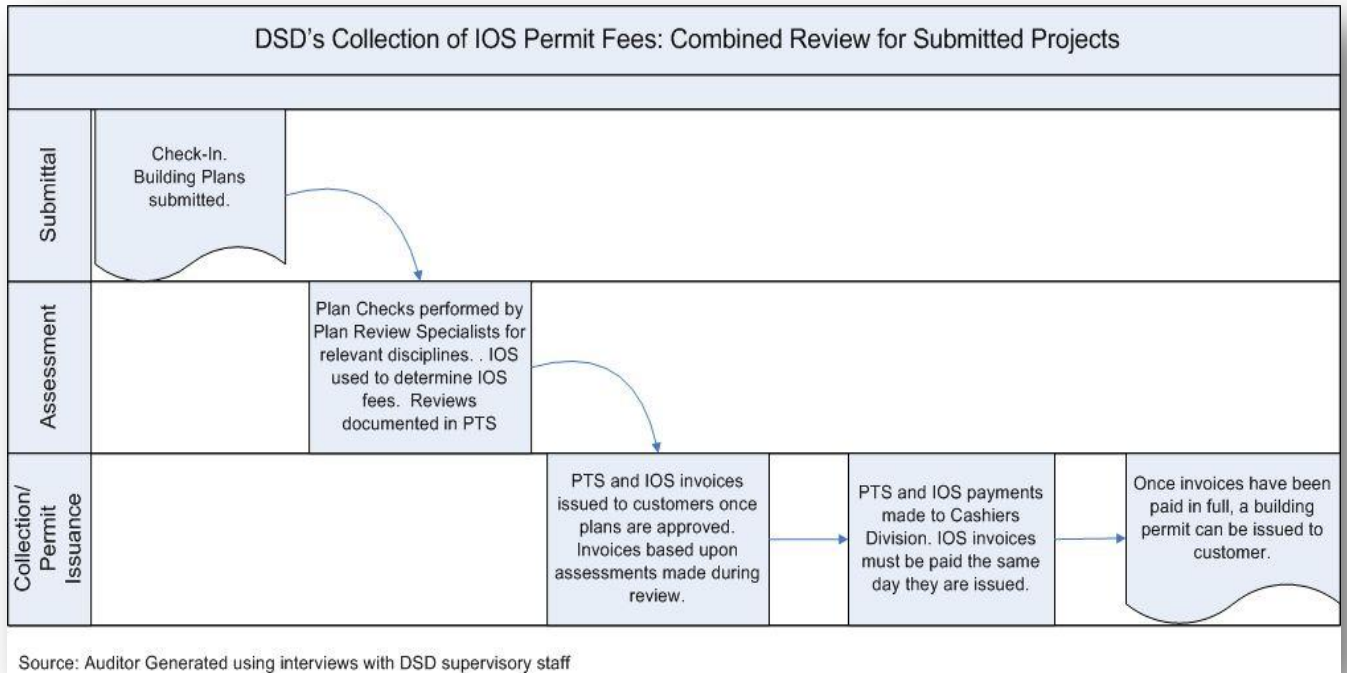
Figure 1 illustrates a simplified version of the permit process for Combined Review for Submitted Projects, the division at DSD that handles the majority of IOS fees.

² Title 24 deals with Residential Energy Conservation compliance.

³ The Water Meter Data Card is required for all water and sewer permits adding or removing equivalent fixture units.

⁴ It should be noted that not all accounts have applicable IOS fees. In this case, customers would not be issued an IOS invoice. Similarly, not all IOS accounts have a corresponding PTS account.

Figure 1



Public Utilities Department

Public Utilities is comprised of the City of San Diego's Water and Metropolitan Wastewater Departments which merged in 2009 in order to provide a more efficient organization. Its mission is to provide a safe, efficient, and cost-effective water and regional sewerage system that supplements the region's limited water supply and meets regulatory standards in an environmentally-sensitive manner.

Within Public Utilities, the IOS Section is responsible for managing and reviewing the collection of City water and sewer fees. This section is comprised of one IOS Coordinator, who oversees data entries into IOS - a mainframe system - which includes the collection of City Water and Sewer fees, County Water Authority capacity fees, as well as the scheduling of water and sewer-related work orders for services to customers throughout the City. The IOS Coordinator is also responsible for notifying DSD of any errors concerning IOS. A Service Level Agreement (SLA) does not currently exist between Public Utilities and DSD regarding the assessment and collection of water and sewer permit fees.

Audit Objective, Scope, and Methodology

The objective of this audit was to determine whether DSD has effective and efficient policies, procedures, and internal controls to ensure the proper collection of Water and Sewer permit fees (IOS fees). To this end, we conducted a review of DSD's policies, procedures, and internal controls as they pertained to the assessment and collection of IOS fees during fiscal years 2007 through 2009, as well as the procedures in place for the recovery of uncollected Water and Sewer permit fees during that same period.

The following audit methodology was used to achieve our audit objective:

- Obtained and reviewed relevant written policies, procedures, and manuals and departmental documents related to the assessment and collection of IOS permit fees.
- Interviewed Public Utilities and DSD staff that are involved in the assessment of IOS fees, the collection of IOS fees, and the follow-up of unpaid IOS fees.
- Interviewed Public Utilities and DSD staff regarding DSD's Project Tracking System (PTS) and Public Utilities' Installation Order System (IOS).
- Obtained and reviewed IOS reports for fiscal years 2007, 2008, and 2009.
- Analyzed and tested data on fiscal year 2009 IOS reports.⁵

We evaluated internal controls related to the audit objectives. Our review focused on controls related to the department's assessment and collection of IOS fees, as well as the follow-up of unpaid IOS fees. Our conclusions on the effectiveness of the controls we reviewed are detailed in the following audit results. This audit did not review the cost-appropriateness of Water and Sewer fees.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁵ Just prior to the issuance of this report, Public Utilities provided a large data set that requires additional testing. Any findings revealed as a result of this testing will be reported in a separate memo.

AUDIT RESULTS

WEAK INTERNAL CONTROLS AND POOR INTERDEPARTMENTAL COORDINATION AND COMMUNICATION DURING THE AUDIT PERIOD RESULTED IN OVER \$170,000 OF UNCOLLECTED IOS FEES AS OF 06/30/09.

DSD assesses building plans and collects permit fees for all structures built within the City of San Diego. To this end, DSD provides water and sewer review for customers and permit fee collection on behalf of Public Utilities for building plans requiring access to water mains and sewer laterals. In conducting our audit, we looked at a number of DSD's processes involved in the billing and collection of IOS fees during fiscal years 2007 – 2009. DSD advised that it has made a number of changes since the end of fiscal year 2009, including the inclusion of IOS fees on DSD's primary invoice, implementation of new procedures in payment collection of IOS fees by cashiers, and establishment of a new policy for the recovery of unpaid fees that may lessen errors, for the period under review; however, during the period tested we found weak controls and poor interdepartmental coordination and communication regarding the collection of Water and Sewer permit fees (IOS fees), including:

- DSD lacks a policy or procedure to recover unpaid IOS fees, resulting in over \$170,000 in uncollected fees as of 06/30/09.
- DSD and Public Utilities do not maintain a Service Level Agreement or Memorandum of Understanding detailing responsibilities and expectations in the assessment, collection, and follow-up of IOS permit fees.

In addition, we identified weak controls regarding the assessment of IOS fees. These include:

- DSD and Public Utilities do not adequately update procedures for the assessment of IOS fees.
- DSD Plan Review Specialists do not receive adequate training on the assessment of IOS permit fees, nor are assessments periodically reviewed.

According to DSD, non-payment of fees (including IOS fees) should result in a hold being placed on an account. While on hold, City staff should not perform services on behalf of a project, the final inspection should not occur, and DSD building inspectors should not issue certificates of completion/occupancy for the property.

According to DSD, there are rare exceptions to the rule that permits should not be issued without fees being paid. For example, the department may issue a permit without fee payment for contractors seeking to meet a deadline for Section 8 housing. Section 8 projects are tied to federal funds that need to have a permit in hand prior to a certain date. These deadlines do not

always coincide with the water/sewer review. In these instances, contractors would lose their funding unless they can display a building permit to the federal government. DSD will allow them to obtain their permit in order to satisfy their funding requirements at the federal level. These customers cannot obtain any inspections for their projects until all fees are paid. According to DSD management, Section 8 projects receiving permits prior to payment is rare, happening maybe twice a year. DSD does not keep records of these exceptions, but notes that holds are placed on accounts so that no work is provided until all payments have been made. The same is true of customers who take advantage of capacity charge deferrals offered by Public Utilities. Customers can delay payment of capacity fees for 12 months or until project completion, but full payment plus an additional six percent interest is due prior to customers obtaining a final DSD inspection. Deferrals are monitored by Public Utilities which estimates between one and two deferrals a year.

As of June 30, 2009, there was \$171,342 in uncollected Water and Sewer fees.

Public Utilities staff use six IOS system reports to monitor DSD's performance in the assessment and collection of IOS permit fees. The six reports can be divided into two categories: non-monetary-based and monetary-based.⁶ As the IOS Coordinator identifies IOS accounts with issues of concern⁷, DSD supervisory staff is notified in order for corrections to be made. DSD Supervisory staff relays items to staff who worked on each particular project. Corrections are made as DSD staff has available time to review items of concern. Supervisors do not actively monitor staff's corrections to ensure they are handled in a timely manner.

On the IOS report entitled "Unpaid IOS Orders with PTS Permits Issued" dated June 30, 2009, we identified 55 accounts in which permits were issued without IOS fees being paid, for a total of \$171,342. Of those 55 accounts, we found that DSD inspectors had issued certificates of occupancy for 60 percent of those accounts. Once certificates of occupancy are issued, it becomes increasingly difficult for the City to collect unpaid fees since all work has already been provided.

Recommendation #1:

DSD should revise its collection processes to ensure that building permits and certificates of occupancy are not being issued to customers prior to full payment of all development fees including water fees.

⁶ Three of the reports deal with errors or omissions due to inaccurate data entry by DSD staff: Administrative Holds, Invalid PTS Number or Approval Number, and Incomplete Transactions. The remaining three reports deal with IOS accounts that have been paid with bad checks and/or accounts where permits have been issued but where the IOS invoice has not been paid: the PTS Permits Issued with IOS Fees Not Paid Report, the BPIS Permits Issued with IOS Fees Not Paid Report, and the NSF Checks Report.

⁷ Issues of concern include items such as customer water billing errors, conflicting information, IOS setup errors, additional fees due and/or fees charged in error.

See Recommendation #4 for collection of unpaid fees.

DSD and Public Utilities do not maintain a Service Level Agreement or Memorandum of Understanding detailing responsibilities and expectations in the assessment, collection, and follow-up of IOS fees.

Services provided internally between two or more City departments serves as a vital support function in meeting the overall objectives of the City of San Diego in providing services and managing resources in a manner that honors the trust placed in the City by its stakeholders. The City of San Diego's Service Level Agreement (SLA) Guide suggests that Service Level Agreements (SLAs) are no exception as SLAs document commitment not only to providing internal service support, but also to protecting the integrity of such transactions through clearly defined performance measures as well as reporting and monitoring protocols. An SLA is a document developed by entities that clearly defines the nature of services (scope), timing, and deliverables of the services provided and the roles and responsibilities of provider and client as well as certain procedural requirements.

The last signed SLA between Public Utilities and DSD for Potable Water and Sewer Permit & Plan Review, which detailed expectations regarding design review turnaround time, the separate responsibilities of the two departments, and department communications expired in 2005. While a Memorandum of Understanding (MOU)⁸ was drafted between the two Departments for Fiscal Year 2006, the terms were not mutually acceptable and the MOU was never signed. No SLA or MOU exists at this time.

According to the City's Service Level Agreement Guide, "a Service Level Agreement (SLA) is an internal contract necessitated when monies are transferred from one City fund to another city fund, as payment for essential services rendered by the provided to the client," and that "the SLA defines the relationship between the two parties: the service provider and client department and must be prepared and signed by both parties." However, DSD is not compensated by Public Utilities. Instead, it obtains compensation by charging customers plan review fees. The development and maintenance of an SLA, MOU, or any other comparable official document is a best practice that would provide guidance to both departments.

According to the last active SLA, DSD is responsible for the assessment and collection of all City Water and Sewer permit fees, including those due by the City to the Metropolitan County Water Authority (CWA) for anticipated increase in usage. The SLA specifically states that DSD will, among other tasks:

⁸ A Memorandum of Understanding (MOU) is a document that expresses mutual accord on an issue between two or more parties, while a Service Level Agreement is generally an agreement between a service provider and a customer.

- Determine potable water⁹ service and sewer lateral installation sizes and appropriate fees,
- Accurately identify existing potable water services and sewer laterals to be disconnected and collect the associated fees for such work,
- Accurately set up New Service Requests (NSSQ) in IOS to establish new and/or add to or reduce existing potable water billing accounts,
- Accurately compute potable water and sewer capacity fees and capacity credits,
- Accurately assess CWA fees when a potable water meter is sold,
- Accurately determine potable water and sewer lateral connections and fees, and
- Respond to and correct errors as soon as possible.

To this end, DSD's Plan Review Specialists utilize Public Utilities' Installation Order System (IOS) to set up new IOS accounts for each customer submitting plans that require water and sewer access. IOS is programmed with a schedule of fees to generate total fee amounts for water and sewer needs for the property under review. After plans are approved, customers are issued an IOS invoice and payments are collected by DSD's Cashiers division.

While the last SLA did not specifically address the expectation or agreement of DSD to appropriately collect the fees which it has accurately assessed, we believe it to be an implied agreement and expectation. While the number of accounts with permits issued without full payment may be due, in part, to exceptions permitted by one or both of the departments, the number of accounts with certificates of occupancy issued by DSD inspectors despite the existence of unpaid fees suggests control weaknesses exist in DSD's permit process. These weaknesses create an atmosphere in which collection of fees becomes difficult as customers are notified of unpaid fees after they have completed the DSD process and, in some cases, after they have occupied the property.

We noted that the departments appeared unclear regarding expectations of accuracy in the use of IOS, the timeliness of corrections of mistakes made in data entry into IOS by DSD staff, and the responsibility for the follow-up of unpaid IOS fees. An official agreement between DSD and Public Utilities would allow for easier monitoring of performance as well as nullify any question or debate of expectations and responsibilities of the two parties which may, at times, have resulted in the dissatisfaction of both in the past.

Recommendation #2:

DSD and Public Utilities should create and maintain either a Service Level Agreement or a Memorandum of Understanding that formally defines the agreed level of service between the two departments.

⁹ Potable water is defined as water that is safe to drink. Potable water is free from pollution, harmful organisms and impurities.

DSD does not have formal written policies or procedures for the collection of IOS fees.

As stated above, our testing revealed several instances when DSD issued permits to customers although IOS permit fees had not been paid. This implies internal control weaknesses exist at one or more points during the collection process. Specifically, controls related to:

- 1) Cashier collection of IOS fees at the time PTS fees are paid.
- 2) Cashier updating status of accounts in IOS, manually entering payment information into IOS as payments are made.

Cashiers' Collection of IOS Fees

The Cashiers division processes 100 percent of all incoming money for the department, tracking payments in PTS. When payments are accepted for IOS invoices, cashiers must access IOS and manually update the account. DSD Cashiers accept cash, credit cards, and personal checks. According to DSD's Senior Cashier, the Cashiers division has and adheres to a policies and procedures manual detailing the procedures required for DSD cashiers. Each cashier reconciles payments made at their stations at the end of each day and the Senior Cashier performs reconciliation or "close out" each morning of the prior day's work.

Historically, DSD cashiers have found it difficult to determine when IOS fees are due, as there was no way of determining IOS fees due from the PTS invoice. Prior to July 2009, customers would be issued both a PTS and an IOS invoice but might only produce the PTS invoice for payment. While DSD states that it is rare for IOS invoices to go unpaid when a customer pays their PTS invoice, cashiers would not necessarily know that the PTS invoice had corresponding IOS fees due. As there is no IOS generated report for Cashiers to balance against, it is difficult to verify that all payments have been credited in IOS. In July 2009, DSD implemented a new practice in which PTS invoices now include a line item with IOS fees due on the project.

Cashier updating of accounts in IOS

If IOS payments are made but are not accurately and appropriately updated in IOS, IOS reports will erroneously indicate that payments have not been made. In October 2009, the Cashiers division initiated a procedure to ensure that IOS payments are made and that they are appropriately reflected in IOS. The procedure requires cashiers accepting PTS invoices for payment to look for the IOS line item and to highlight the line, if found. Cashiers then compare the fee amount on the PTS invoice and the IOS invoice. Once paid, cashiers update the account in IOS and print out the screen in IOS showing the status as "paid". A copy of this screen print is used for reconciliation and is maintained by the division. While DSD's Senior Cashier provided an email disseminated to cashiering staff regarding the new procedure, written departmental procedures do not exist and DSD management does not monitor this new procedure.

Recommendation #3:

DSD management should develop formal written policies and procedures regarding the collection of IOS permit fees to ensure appropriate payments are made and payment information is transferred into IOS. These policies and procedures should be monitored by management for effectiveness.

DSD lacks a policy or procedure to recover the \$171,342 in unpaid IOS fees.

While it is likely that a number of factors may have contributed to the number of accounts with unpaid IOS fees during the three fiscal years reviewed¹⁰, the number that has remained unrecovered is due to the absence of a departmental policy or procedure for the follow-up of unpaid IOS fees. During our audit review period, fiscal years 2007-2009, DSD had no written policies or procedures regarding steps to be taken to recover unpaid IOS fees. While DSD provided some records of delinquent accounts forwarded to Collections¹¹ for recovery, the department does not have an automatic “delinquency rule” that prompts the processing of unpaid fees to Collections. DSD advised that this is because the nature of the system makes it a bit of a guessing game to match entities, for example multiple people with the same name. During the audit period, when the IOS Coordinator relayed information of delinquent accounts to DSD, supervisors would work on them as time permitted.

According to DSD, it has implemented procedures for the collection of unpaid fees, effective September 2009. Under these new procedures, when the department obtains information regarding delinquent accounts from the IOS Coordinator, it will place an administrative hold on the account if the account is still active. If a permit has already been issued for the project, DSD will send a registered letter to the customer, notifying them of the outstanding balance and requesting response and/or payment within 30 working days. At the close of the 30-day period, accounts are created using the City’s Accounts Receivable Information System (ARIS)¹². The entering of account information into ARIS begins the collection process. At this point, each account is given a 21-day grace period, during which time customers can contact DSD regarding their accounts. As DSD anticipates weekly reports from Collections regarding invoices that have been paid, DSD states that it would be able to use the ARIS account number for monitoring purposes of account recovery.

Public Utilities’ IOS Coordinator monitors IOS accounts and payments made. As customer payments affect provision of services to customers, it is important for DSD to share updates on fee recovery with Public Utilities as the weekly updates received by DSD from Collections are

¹⁰ These factors, such as a lack of standardization of assessment procedures, periodic training, and system interfacing, will be addressed later in the audit report.

¹¹ Collections is a section within the Office of the City Treasurer. Collections is formally known as the Delinquent Accounts Program, and is responsible for the collection of past due accounts owed to the City.

¹² The City of San Diego implemented a new accounts receivable system. Effective March 1, 2010, an accounts receivable module of SAP has replaced ARIS.

not also provided to Public Utilities and money recovered cannot be tracked by the original IOS account numbers.

Recommendation #4:

DSD should continue implementation of the newly developed recovery practices, including how unpaid fees will be referred to Collections, in order to recoup unpaid fees while sharing monitoring and recovery information of delinquent accounts with Public Utilities' IOS Section.

DSD and Public Utilities do not adequately ensure that updated procedures for the assessment of IOS fees are properly documented and disseminated to appropriate staff.

DSD's departmental policies and procedures should be designed to ensure appropriate and standardized review of building plans by its Plan Review Specialists throughout the department. Plan Review Specialists are staff responsible for the review of plans that result in the charging of fees to customers. Regarding IOS fees, a Plan Review Specialists' data entry into IOS impacts not only one-time fees such as capacity charges and water tap fees, but on-going fees such as future water and sewer bills.

DSD maintains and staff utilizes a number of manuals for the use of IOS. The Water and Sewer Installation Order System Reference Manual, the primary manual used by DSD Plan Review Specialists, is a 143-page manual that was last updated in 2001. The manual provides step-by-step instructions for the navigation of IOS, specifically how and when to access various screens, input data, and enter reimbursables. The manual does not, however, instruct on how to assess fees themselves. While the Reference Manual has not seen an update in nearly 10 years, DSD Review staff indicates that the IOS manual is useful for training and occasional reference but is slightly outdated, an opinion repeated in respect to other commonly used guides. In addition, review staff suggested that training is needed on the Water Meter Data Card which is used by review staff to assess fees.

According to a DSD Plan Review Specialist III who has been reviewing IOS fees at DSD for 20 years, there are important unwritten procedures and rules that come about as issues arise. None of these procedures or rules is formally relayed to staff. Rather, they are usually emailed notices or word-of-mouth instructions. Due to the lack of formality and clarity of how to determine IOS assessments, two reviewers could likely assess different fees for the same set of plans. The review of building plans resulting in fee assessments to City customers should not be subjective. Procedural changes that impact the review of plans and, consequently, the assessment of fees, should be officially disseminated in written form to all DSD Review Specialists. Failure to effectively relay information puts the department at risk of inconsistency in charging fees accurately.

Recommendation #5:

DSD management, in conjunction with the Public Utilities' IOS Section, should create a common repository that is updated as rules or procedures for the assessment of IOS permit fees are created or changed.

DSD Plan Review Specialists do not receive adequate training on the assessment of IOS fees, nor are assessments periodically reviewed.

Standardized training and supervisory reviews help to ensure that operations are consistent and accurate. DSD supervisors of Plan Review Specialists neither provide periodic training on assessment of IOS fees, nor do they periodically review the fee assessments made by review staff.

As previously stated, the Information and Applications Services section is not the only group (or cluster) of Plan Review Specialists at DSD that regularly assesses IOS fees. There are five supervisory clusters at DSD, three of which regularly assess IOS fees. The three clusters account for 19 staff members. The last formal IOS training, which occurred when the last group of Plan Review Specialists were hired into the department, was a year-long training from mid-2001 through 2002. Approaches to ensuring on-going training of staff differed among the three clusters. According to one supervisor, his staff does not receive IOS training. A second supervisor stated that training is provided before one can become a Plan Review Specialist III or when staff makes a mistake. A third supervisor stated there is no formal training but that staff receives on-the-job training.

Water and Sewer reviews were originally conducted by a group of water and sewer fee specialists who were a part of the Water Department. In the late 1980's, this group was reclassified and moved to DSD where the department made a decision to combine the specialists with the rest of the staff, resulting in review staff that are responsible for knowing how to review a number of specialties. Currently, staff is also responsible for zoning, residential mechanical, and storm water requirement reviews. The original specialists have all since retired.

As training and qualified trainers are also scarce, periodic assessments of Review Specialists' work by supervisors would help ensure accuracy and consistency among assessments. However, only one of the three supervisors of staff that regularly assess IOS fees conducts periodic reviews of staff assessments. Another supervisor stated that periodic reviews of staff are not conducted as some staff members have been conducting reviews for more than 20 years. According to Public Utilities, DSD staff who assess plans are making the same mistakes repeatedly. Our review of fiscal year 2007-2009 IOS Administrative Holds reports showed between 99 to 156

accounts listed each reporting period.¹³ Administrative Holds can be placed on NSSQ accounts in IOS by Public Utilities and on PTS accounts by DSD. When Public Utilities' IOS Coordinator places a hold on an account in IOS, DSD is notified and requested to place a hold in PTS until corrections can be made.¹⁴

Recommendation #6:

DSD should implement a periodic review of plans in Supervisory Clusters that regularly assess IOS fees and yearly training sessions in conjunction with Public Utilities.

Additional interfacing between DSD's Project Tracking System (PTS) and Public Utilities' Installation Ordering System (IOS) replacement application will result in increased efficiency and reduced error.

Streamlining and automating processes is optimal for departments with overlapping or redundant system processes that handle high numbers of customers. These practices most often result in less error than manual processes as well as a greater flow of information. As stated previously, DSD Plan Review Specialists and Cashiers use IOS during the process of assessing and collecting IOS fees. Public Utilities uses IOS to determine future water and sewer needs, as well as to monitor expected revenue for the department and for the County Water Authority.

DSD's Project Tracking System (PTS) and Public Utilities' Installation Order System (IOS) are not adequately interfaced. DSD staff manually enters redundant information in both PTS and IOS. This duplication of data entry creates a risk of error which, over the fiscal years reviewed, has likely cost both DSD and Public Utilities hours of labor to identify and correct.

Currently, an electronic interface exists between the PTS & IOS applications transferring only the current project status from DSD's PTS to Public Utilities' IOS application. This permit status allows IOS to determine when a fee should have been collected. This information is then used to create a monthly "IOS Variance Report" comprised of cumulative fees due but not collected. In the past, there have been cumulative variances of over \$1.3 million dollars between the two systems.

DSD policy states that PTS invoices must be paid in full, partial payments are not permitted. As IOS fees have now been added to PTS invoices, both IOS and PTS invoices must be paid when customers make payments to the DSD's Cashiers division. Therefore, adding an additional interface to allow an overnight update from PTS to IOS of PTS accounts that have been paid in full¹⁵ would release cashier staff from time-consuming procedures while ensuring that IOS

¹³ Reports are generated on a monthly basis. A number of accounts remain on the Administrative Holds report for months/years. Therefore, duplications within total numbers exist.

¹⁴ Administrative Holds are placed for a number of reasons including fees due or refunds due on an account.

¹⁵ IOS accounts also list the corresponding PTS project number, when applicable.

invoices are paid. Interfacing would also save DSD Plan Review Staff time in reviewing accounts identified by the IOS Coordinator as not having been paid, as well as eliminate time spent by DSD management in collecting unpaid IOS fees.

However, creating additional interfaces between the current systems at this point will provide diminishing returns as Public Utilities is in the process of implementing SAP to replace IOS and CIS (Public Utilities' Customer Information System). Public Utilities plans on reviewing possible interfaces between SAP and PTS during the blueprinting process for the IOS replacement SAP component following best business practice.

Recommendation #7:

Public Utilities should work with implementation consultants as planned to ensure maximum efficiencies are gained through interfacing with all process-related applications, including Development Services Department's (DSD) Project Tracking System. DSD should be included on the relative interfaces and facilitate automated data interfacing as recommended and required by the implementing consultant.

CONCLUSION

The assessment and collection of fees by DSD is a vital service to the City of San Diego. We found a number of weak internal controls in the processes related to the charging and the collecting of IOS fees in relation to the Public Utilities Department which provides access to the City's water main and sewer laterals, resulting in an uncollected amount for Public Utilities totaling \$171,342 as of 06/30/09. DSD advised that it has implemented a number of new practices and procedures to strengthen their permitting process and lessen the likelihood of unpaid IOS fees on active accounts. In presenting this audit and its recommendations, we hope to strengthen the permitting process and ensure accurate and consistent review and collection of fees for the City.



THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: June 18, 2010

TO: Eduardo Luna, City Auditor

FROM: Kelly Broughton, Development Services Department Director
Alex Ruiz, Acting Public Utilities Department Director

SUBJECT: Response to the Audit of the Development Services Department Water and Sewer Fees (IOS Fees) Collection Process

The Development Services Department and Public Utilities Department have reviewed the audit. The audit used Installation Order System (IOS) reports for Fiscal Years 2007-2009 and used the end date of June 30, 2009 as the end of the time period audited (end of Fiscal Year 2009).

As the audit notes, as of June 30, 2009, the IOS system report showed 120 IOS New Service Sequence Requests (NSSQs) that had not been paid with the total amount owed to the City being \$1,338,036. The audit concludes that in reality, 65 of the 120 unpaid NSSQs originally reported had been paid and 55 NSSQs had not been paid with the total amount owed to the City being \$171,342 as of June 30, 2009.

These results, however, should be put in perspective. As the audit notes, Development Services staff issued approximately 24,000 building permits in Fiscal Years 2007-2009. During this same time Development Services staff set up 14,014 IOS NSSQs and collected \$170.744 million in water and sewer fees. Put in perspective, DSD staff during this audit period had an error rate less than 0.4% (number of errors made divided by total IOS NSSQs created). Their error rate in amount collected is 0.1% (amount uncollected divided by total amount collected).

The two Departments take these matters seriously. As the audit notes, Development Services staff had already been working on improvements to the IOS fee process prior to this audit period and prior to the Water and Sewer Fee Collection Process audit's inception. At about the same time as this audit began, Development Services believes the improvements it had implemented working with Public Utilities staff had reduced the uncollected/not referred to collection amount to less than \$22,000 and significantly addressed the error problems that occurred in prior years.

No matter how much standardization or integration is incorporated into any accounting transaction process and system, there will always be labor inefficiencies and errors when processing large amounts of transactions in multiple locations. Development Services and

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Public Utilities staff do a great job in an extremely complex environment and should be acknowledged for their hard work and dedication.

Recommendations**Recommendation #1:**

DSD should revise its collection processes to ensure that building permits and certificates of occupancy are not being issued to customers prior to full payment of all development fees including water fees.

Response: Agree with the recommendation. The revisions to the collection process are completed.

Recommendation #2:

DSD and Public Utilities should create and maintain either a Service Level Agreement or a Memorandum of Understanding that formally defines the agreed level of service between the two departments.

Response: Agree with recommendation – DSD provides IOS-related services for the benefit of the City and City customers. With regard to DSD's processing of IOS permits and collection of IOS related fees, the Public Utilities and Development Services departments (the Departments) are fully committed to working together to improve the skill and knowledge of their employees, the level of service provided to City customers and the consistency of IOS related processes.

The Departments will begin developing a Memorandum of Understanding (MOU) to further delineate expectations and responsibilities related to the assessment, collection and follow-up of IOS fees. The MOU shall be completed no later than December 31, 2010 and will include the following:

- Responsibility matrix
- Communication Plan (contacts, monthly meetings)
- Training Plan (content, schedule, who develops/coordinates/delivers)
- Development/maintenance Plan for shared document repository
- Exception (non-standard IOS fee assessment)
- Escalation process
- Fee Deferral/waiver process

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- Error correction/update process
- Audit of water and sewer fee collection process

Recommendation #3:

DSD management should develop formal written policies and procedures regarding the collection of IOS permit fees to ensure appropriate payments are made and payment information is transferred into IOS. These policies and procedures should be monitored by management for effectiveness.

Response: Agree with recommendation. Development Services will document the IOS collection process changes it has implemented into a formal written policy by December 2010. Management is already monitoring the revised process.

Recommendation #4:

DSD should continue implementation of the newly developed recovery practices, including how unpaid fees will be referred to Collections, in order to recoup unpaid fees while sharing monitoring and recovery information of delinquent accounts with Public Utilities' IOS Section.

Response: Agree with recommendation. Development Services will continue to follow its revised collection process and make appropriate referrals to collections.

Recommendation #5:

DSD management, in conjunction with the Public Utilities' IOS Section, should create a common repository that is updated as rules or procedures for the assessment of IOS permit fees are created or changed.

Response: Agree with recommendation. The departments will include the process for creation and maintenance of the shared repository in the MOU identified in response to recommendation number 2. The repository will be formally adopted and approved by the Departments by May 1, 2011.

Recommendation #6:

DSD should implement a periodic review of plans in Supervisory Clusters that regularly assess IOS fees and yearly training sessions in conjunction with Public Utilities.

Response: Agree with recommendation. The Departments will formalize through the MOU an implementation plan which identifies the dedication of resources needed in

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order to implement this recommendation. The first training will be provided by December 31, 2010.

Recommendation #7:

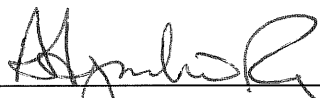
Public Utilities should work with implementation consultants as planned to ensure maximum efficiencies are gained through interfacing with all process related applications, including Development Services Department's (DSD) Project Tracking System. DSD should be included on the relative interfaces and facilitate automated data interfacing as recommended and required by the implementing consultant.

Response: Agree with recommendation. The Public Utilities Customer Care Solutions Utility Billing (CCS) project, formerly referred to as CIS/IOS Replacement project, includes the replacement of the IOS system and functionally. A key objective of this project includes focusing on efficiency through maximizing opportunities for automation and effective integration. Improving the level and accuracy of the data interfaces with PTS is consistent with that objective.

Relevant Development Services staff members are being included in the current blueprinting phase of this project to ensure Project Tracking System interface/requirements are adequately captured and included in the to-be processes/solutions associated with the project implementation, which is schedule for completion September 2011.

Respectfully Submitted:



Kelly Broughton, Director
Development Services Department

Alex Ruiz, Acting Director
Public Utilities Department

cc: Jay Goldstone, Chief Operating Officer
Wally Hill, Assistant Chief Operating Officer